



Legislative Audit Division

State of Montana

Report to the Legislature

November 2006

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2006

Montana Board of Housing

**Department of Commerce
A component unit of the state of Montana**

This is our financial-compliance audit report on the Board of Housing (Board) for the two fiscal years ended June 30, 2006. The objectives of our financial-compliance audit included determining if the Board's financial statements presented fairly its financial position and results of operations at and for the period ending June 30, 2006, with comparative totals at and for the period ending June 30, 2005.

We tested the Board's compliance with state and federal laws that have a direct and material impact on the financial statements. We also completed additional testing to determine compliance with applicable laws and regulations as part of this financial-compliance audit.

The audit report does not contain any recommendations to the Board.

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

06-07

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

November 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Montana Board of Housing, a component unit of the state of Montana, for the two fiscal years ended June 30, 2006, and 2005. The objectives of our financial-compliance audit included determining if the Board's financial statements presented fairly its financial position and results of operations at and for the periods ending June 30, 2006, and 2005. We also tested the Board's compliance with applicable laws and regulations.

The Board of Housing was created by the Montana Housing Act of 1975. The Board is attached to the Housing Division within the Department of Commerce. Montana Board of Housing's purpose is to provide decent, safe, sanitary, and affordable housing for lower income individuals and families in the state of Montana. The Board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs, and working in partnership with other housing providers throughout Montana. As of June 30, 2006, the maximum income limitations for qualifying for a loan ranged between \$48,150 in most small Montana counties to \$75,600 in Missoula County. The maximum qualifying purchase price of a home ranged between \$200,160 and \$237,031 depending on the mortgage program. Qualifying mortgage loans made during the year ranged between \$16,320 and \$203,500.

On page A-1, you will find the Independent Auditor's Report followed by Board Management's Discussion and Analysis, the financial statements and accompanying notes, and the combining statements. We issued an unqualified opinion on those financial statements which means the reader can rely on the presented information.

In addition to the annual financial audit and biennial financial-compliance audit of the Board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the Board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the Board issues bonds. We have also performed agreed-upon procedures at selected Board of Housing loan servicers to assist the Board in evaluating the mortgage receivable information provided by the Board's loan servicers and to determine compliance with contract requirements.

This report does not contain any recommendations to the Board. The prior financial-compliance audit report, issued for fiscal year 2003-04, did not contain any recommendations to the Board. The Board's response to our audit is on B-1.

We thank the Board of Housing, its staff, and the Department of Commerce staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Montana Board of Housing

		Term <u>Expires</u>
Bob Thomas, Chair	Stevensville	2007
Judy Glendenning, Vice Chair	Helena	2007
J.P. Crowley, Secretary	Helena	2009
Audrey Black Eagle	Lodge Grass	2009
Susan Moyer	Kalispell	2007
Jeff Rupp	Bozeman	2009
Betsy Scanlin	Red Lodge	2009

Administrative Officials:

Department of Commerce

Anthony J. Preite, Director

Board of Housing

Bruce Brensdal, Executive Director

Chuck Nemec, Accounting and Finance Manager

Mat Rude, Multifamily Program Manager

Nancy Leifer, Single Family Program Manager

For further information on the Montana Board of Housing contact Bruce Brensdal, Executive Director, at:

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Helena MT 59620-0528
(406) 841-2840
e-mail: bbrensdal@mt.gov

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Jennifer Erdahl, Jay Phillips, and Amber Thorvilson.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2006, and 2005, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2006, and 2005, and the results of its operations and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis is not a required part of the financial statements, but supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1 to the financial statements, the board changed its method for classifying investments between short term and long term.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Combining Statement of Net Assets as of June 30, 2006, and the related Combining Statement of Revenues, Expenses, and Changes in Net Assets and Combining Statement of Cash Flows for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 16, 2006

**The Montana Board of Housing
Management's Discussion and Analysis,
Financial Statements and Notes**

Management's Discussion and Analysis

Year Ended June 30, 2006

This section of the Montana Board of Housing's (MBOH's) annual financial report presents our discussion and analysis of the agency's financial performance during the fiscal year ended June 30, 2006. Please read this section in conjunction with the financial statements and accompanying notes.

Financial Highlights

- 1,473 single-family mortgages were originated for \$153 million.
- \$2,190,000 of Low Income Tax Credits were allocated providing approximately \$19 million of equity to produce or preserve 202 units of affordable rental housing.
- 13 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 71. Since its inception the RAM program has assisted 127 elderly households.
- Total new debt issued was \$155 million.
- Total debt retired was \$116 million.
- Total outstanding debt increased from \$766 million to \$805 million.

Overview of the Financial Statements

The MBOH is a self-supporting entity using no Montana state government general fund appropriations to operate. The MBOH is classified as an enterprise fund, that is, a fund which is financed and operated in a manner similar to a private business enterprise.

The Net Assets – Restricted for Bondholders represent bond program funds that are pledged as collateral for the bondholders and are restricted by federal tax law to costs directly related to carrying out qualifying housing programs, qualifying mortgages or paying off bonds. These funds are therefore not available for use for other non-housing activities.

The financial statements are designed to provide the stakeholders of the MBOH, our citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of the finances of the organization and to demonstrate our accountability for the resources with which we are entrusted.

Condensed Financial Information
Change in Net Assets and Operating Income
Years ended June 30, 2006, 2005 and 2004

		<u>2006</u>		<u>2005</u>		<u>2004</u>
Assets:						
Current Assets	(1)	\$ 203,133,566	\$	209,903,196	\$	138,532,655
Noncurrent Assets	(1)	\$ 745,299,548	\$	698,828,844	\$	629,155,140
Total Assets		\$ 948,433,114	\$	908,732,040	\$	767,687,795
Liabilities:						
Current Liabilities		\$ 15,034,303	\$	14,545,671	\$	11,936,674
Noncurrent Liabilities	(2)	\$ 793,399,678	\$	756,226,009	\$	624,197,098
Total Liabilities		\$ 808,433,981	\$	770,771,680	\$	636,133,772
Net Assets:						
Invested in Capital Assets		\$ 55,004	\$	80,881	\$	75,617
Restricted		\$ 139,944,129	\$	137,879,479	\$	131,478,406
Total Net Assets		\$ 139,999,133	\$	137,960,360	\$	131,554,023
Operating Revenue:						
Interest on Loans		\$ 38,553,706	\$	37,146,816	\$	36,103,048
Earnings from Investments	(3)	\$ 6,620,427	\$	10,967,626	\$	6,184,388
Fees and Charges		\$ 980,177	\$	751,260	\$	732,101
Total Operating Revenue		\$ 46,154,310	\$	48,865,702	\$	43,019,537
Operating Expenses:						
Bond Expenses		\$ 38,883,157	\$	37,837,519	\$	36,897,582
Servicing Fees		\$ 2,534,835	\$	2,376,194	\$	2,157,072
General and Administrative		\$ 2,685,985	\$	2,245,652	\$	1,940,699
Total Expenses	(4)	\$ 44,103,977	\$	42,459,365	\$	40,995,353
Operating Income	(3)	\$ 2,050,333	\$	6,406,337	\$	2,024,184
Increase (Decrease) in Net Assets		\$ 2,050,333	\$	6,406,337	\$	2,024,184
Net Assets, Beginning of Year		137,960,360		131,554,023		129,529,839
Prior Period Adjustment		(11,560)				
Net Assets, End of Year		\$ 139,999,133	\$	137,960,360	\$	131,554,023

Discussion of Changes between 2006 and 2005

- (1) Current assets decreased by \$6.8 million between 2006 and 2005 due to greater mortgage purchasing. Mortgages Receivable increased \$49 million between years causing the increase in noncurrent assets. A 2006 change in reporting certain investments as current assets instead of noncurrent assets (as previously reported) is applied to 2005 and 2004 so assets are consistently presented for the three years. Financial Statement Note 1 contains details.
- (2) Noncurrent Liabilities increased \$37 million which is wholly attributable to increased Bonds Payable amount caused by the board issuing new bonds during the year. Financial Statement Note 8 contains details.
- (3) Earning from investments increased \$1.5 million due to higher interest rates but valuation changes required by GASB 31 (Financial Statements Note 1 - Investments) resulted in an unrealized loss of \$3 million in FY 2006. In 2005, the Board reported an unrealized gain of \$3 million for the GASB 31 valuation thereby causing a large difference between 2006 and 2005 investment earnings.
- (4) Bond Expenses and Servicing Fees increased due the greater number of bonds outstanding and the greater number of mortgages being serviced. General and Administrative expenses increased mostly due to the increased cost of Homebuyer Education being funded by the Board.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006 AND 2005

	FY 2006	FY 2005
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 7,870,436	\$ 5,771,588
Investments	177,112,947	187,407,778
Mortgage Loans Receivable	13,191,347	11,957,430
Interest Receivable	4,677,039	4,519,714
Due from Primary Government	7,328	5,237
Due from Other Governments	-	32,639
Security Lending Collateral	41,972	
Prepaid Expense	232,497	208,810
Total Current Assets	<u>\$ 203,133,566</u>	<u>\$ 209,903,196</u>
Noncurrent Assets		
Investments	\$ 26,540,652	\$ 28,939,630
Mortgage Loans Receivable	710,945,504	662,372,983
Deferred Bond Issuance Costs, Net	7,758,388	7,435,350
Capital Assets, Net	55,004	80,881
Total Noncurrent Assets	<u>\$ 745,299,548</u>	<u>\$ 698,828,844</u>
TOTAL ASSETS	<u><u>\$ 948,433,114</u></u>	<u><u>\$ 908,732,040</u></u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 440,673	\$ 461,019
Due to Primary Government	21,524	25,114
Due to Other Component Unit	-	150
Due to Other Government	-	32,639
Security Lending Liability	41,971	
Property Held in Trust	-	3,255
Accrued Interest - Bonds Payable	3,519,431	3,656,257
Bonds Payable, Net	10,650,000	9,855,000
Arbitrage Rebate Payable to U.S. Treasury Department	314,204	443,233
Accrued Compensated Absences	46,500	69,004
Total Current Liabilities	<u>\$ 15,034,303</u>	<u>\$ 14,545,671</u>
Noncurrent Liabilities		
Bonds Payable, Net	\$ 794,476,577	\$ 756,724,488
Deferred Refunding Costs	(1,991,845)	(1,365,779)
Arbitrage Rebate Payable to U.S. Treasury Department	826,928	818,850
Accrued Compensated Absences	88,018	48,450
Total Noncurrent Liabilities	<u>\$ 793,399,678</u>	<u>\$ 756,226,009</u>
TOTAL LIABILITIES	<u><u>\$ 808,433,981</u></u>	<u><u>\$ 770,771,680</u></u>
NET ASSETS		
Invested in Capital Assets, Net	\$ 55,004	\$ 80,880
Restricted for Bondholders:		
Unrealized (losses) gains on investments	1,606,245	4,564,519
Single Family Programs	86,521,510	85,678,849
Various Recycled Mortgage Programs	34,085,292	33,440,493
Multifamily Programs	9,838,105	8,710,759
Multifamily Project Commitments	220,867	225,441
Reverse Annuity Mortgage Program	4,825,002	2,634,845
Restricted for Affordable Revolving Loan Program	2,847,108	2,624,574
TOTAL NET ASSETS	<u><u>\$ 139,999,133</u></u>	<u><u>\$ 137,960,360</u></u>

The accompanying notes are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	FY 2006	FY 2005
OPERATING REVENUES		
Interest Income - Mortgage Loans	\$ 38,553,706	\$ 37,146,816
Interest Income - Investments	9,578,702	8,061,488
Fee Income	315,600	219,119
Federal Financial Assistance	598,450	403,825
Net Increase (Decrease) in Fair Value of Investments	(2,958,275)	2,906,138
Grants and Contributions	-	117,539
Other Income	65,519	10,777
Securities Lending Gross Earnings	609	
Total Operating Revenues	<u>\$ 46,154,311</u>	<u>\$ 48,865,702</u>
OPERATING EXPENSES		
Interest on Bonds	\$ 37,272,424	\$ 36,298,463
Servicer Fees	2,534,834	2,376,194
Contracted Services	1,039,470	575,740
Amortization of Bond Issuance Costs	362,622	553,586
General and Administrative	1,645,907	1,552,373
Arbitrage Rebate Expense	300,379	282,233
Grants / Subcontracts		117,539
Loss on Redemption	947,732	703,237
Securities Lending Expense	609	
Total Operating Expenses	<u>\$ 44,103,978</u>	<u>\$ 42,459,365</u>
Operating Income (Loss) Before Transfers	<u>2,050,333</u>	<u>6,406,337</u>
Increase (Decrease) in Net Assets	2,050,333	6,406,337
Net Assets, Beginning of Year	137,960,360	131,554,023
Prior Period Adjustment	<u>(11,560)</u>	
Net Assets, End of Year	<u>\$ 139,999,133</u>	<u>\$ 137,960,360</u>

The accompanying notes are an integral part of these financial statements.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITY		
Receipts for Sales and Services	\$ 315,600	\$ 215,955
Collections on Loans and Interest on Loans	142,053,626	134,465,707
Cash payments for Loans	(153,394,580)	(162,433,374)
Federal Financial Assistance Receipts	631,089	396,720
Receipts for Grants and Contributions	-	117,539
Payments to Suppliers for Goods and Services	(4,287,654)	(3,683,108)
Payments to Employees	(968,617)	(909,996)
Other Operating Revenues	67,872	10,775
Net Cash Provided (Used) by Operating Activities	<u>\$ (15,582,664)</u>	<u>\$ (31,819,782)</u>
CASH FLOWS FROM NONCAPITAL		
FINANCING ACTIVITIES:		
Payment of Principal and Interest on Bonds and Notes	\$ (154,169,130)	\$ (122,322,868)
Proceeds from Issuance of Bonds and Notes	152,840,000	216,385,000
Payment of Bond Issuance Costs	(2,275,232)	(2,159,579)
Premium Paid on Refunding Bonds	2,477,860	4,416,754
Good Faith Deposit being Held	-	(680,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (1,126,502)</u>	<u>\$ 95,639,307</u>
CASH FLOWS FROM CAPITAL		
FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (14,040)	\$ (45,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	\$ (1,173,189,259)	\$ (1,000,704,058)
Proceeds from Sales or Maturities of Investments	1,182,924,810	927,737,555
Interest on Investments	9,509,575	7,742,593
Arbitrage Rebate Tax (Note 12)	(421,329)	(43,159)
Net Cash Provided (Used) by Investing Activities	<u>\$ 18,823,797</u>	<u>\$ (65,267,069)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 2,100,591	\$ (1,492,544)
Cash and Cash Equivalents, beginning bal.	\$ 5,771,587	\$ 7,264,131
Prior Period Adjustment	(1,742)	
Cash and Cash Equivalents, ending bal.	\$ 7,870,436	\$ 5,771,587

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	FY 2006	FY 2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 2,050,333	\$ 6,406,337
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	30,142	39,736
Amortization	443,182	853,908
Interest Expense	38,139,556	36,701,376
Interest on Investments	(9,578,702)	(8,061,487)
Arbitrage Rebate Tax	300,379	282,232
(Incr) Decr in Fair Value of Investments	2,958,275	(2,906,138)
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	(47,338,337)	(62,345,980)
Decr (Incr) in Other Assets	(111,910)	(153,077)
Incr (Decr) in Accounts Payable	(24,545)	1,468
Incr (Decr) in Deferred Reservation & Disc. Fees	(2,468,099)	(2,653,089)
Incr (Decr) in Compensated Absences Payable	17,062	14,932
Net Cash Provided (Used) by Operating Activities	<u>\$ (15,582,664)</u>	<u>\$ (31,819,782)</u>

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1,500,000,000 (\$975 million prior to October 1, 2003). The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached for administrative purposes to the Housing Division, Department of Commerce.

Basis of Presentation:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). During fiscal year 2002 the Board implemented GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus" and No. 38, "Certain Financial Statement Note Disclosures". In order to comply with the requirements of the statements noted, the Board's financial statements include a classified statement of net assets, a statement of revenues, expenses, and changes in net assets that reports operating and nonoperating revenues and expenses, and the statement of cash flows. In addition, the "Management's Discussion and Analysis" precedes the financial statements as required supplementary information. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net assets and revenues and expenses for the period. The financial statements of the Board are presented on a combined basis. The combining financial information can be found in other supplemental information.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's Basic Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenues, and expenses.

The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

Restricted Net Assets - Effective June 30, 2005, The Board early implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46 – Net Assets Restricted by Enabling Legislation. Net Assets are considered restricted if they are limited as to the manner in or purpose for which they may be used. The Combined Statement of Revenues, Expenses and Changes In Net Assets reports \$139,999,133 of restricted net assets, of which \$139,999,133 is restricted by enabling legislation.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Assets: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain mortgage and debt service reserve requirements, restricting funds for these purposes. As disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Restricted Net Assets also include funds reserved by participants and funds committed to specific projects under various programs established by the Board.

Revenue and Expense Recognition:

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure:

The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

Single Family Mortgage Program Funds - These funds, established under two separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development.

The accompanying combining financial statements include the activity of both Single Family Mortgage Program Funds. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indentures.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established to account for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The Federal Housing Administration must insure mortgage loans originated prior to December 1992.

On November 10, 1998, the Board issued \$1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established to account for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Structure - continued

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Affordable Housing Revolving Loan Account - Under 90-6-133, MCA, a Revolving Loan Account was established. The affordable housing revolving loan account was established in the state special revenue fund in the state treasury. For purposes of financial reporting, the Board has reclassified this account as an enterprise fund as allowed in GASB Statement No. 34. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund effective July 1, 2003. The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants. House Bill 57 of the 2001 Legislature authorized the transfer of \$500,000 from the Federal Housing and Urban Development Section 8 administrative fee reserve account to this account. In addition, House Bill 273 of the 2001 Legislature allocated \$3,415,928 of the Temporary Assistance to Needy Families (TANF) block grant to the Board to be used for purposes authorized by the block grant. Senate Bill 6 of the 2002 Special Session limited the transfer to \$700,000.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool. Cash and cash equivalents are described in Note 2 of these financial statements.

Investments:

Prior to 2006 investment contracts were reported as long-term investments. In 2006 the Board elected to change its investment contract reporting from long-term to short-term to accurately reflect the shift from holding contracts lasting greater than one year to contracts lasting less than one year. Comparative amounts in the 2005 Statement of Net Assets (Current Assets – Investments and Noncurrent Assets – Investments) were adjusted to retroactively to show this change in the application of accounting principle. The change had no effect on income.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustees.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or private mortgage insurance or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgment, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Mortgage Loans Receivable - continued

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Capital Assets:

Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 4 to 5 years. The majority of capital assets consists of computers and software. The capitalization threshold for recording capital assets is \$5,000. Purchases under this threshold are recorded as expenses in the current period.

Bonds Payable:

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:

The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are held by trustees or by the State of Montana Treasury as cash or short-term investments. At June 30, 2006 and 2005, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds	2006	2005
Short-Term Investments	\$ 4,504,333	\$ 3,954,933
Short-Term Investment Pool*	2,559,184	949,221
Cash Deposited with Trustee Banks**	415,345	575,291
Cash Deposited with State Treasury	391,574	292,143
	<u>\$ 7,870,436</u>	<u>\$ 5,771,588</u>

*The State's Short Term Investment Pool (STIP) balances are covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. The units held in the State's Short Term Investment Pool (STIP) are valued at \$1 per unit. Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Montana Board of Investments (BOI) has a policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair market value to report net assets to compute unit values. The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable rate (floating rate) instruments.

**Cash deposits are held at the trustee banks. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to \$100,000 of insurance coverage.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal years 2006 and 2005 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. More over, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street.

During fiscal years 2006 and 2005, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 2006 and June 30, 2005, BOI had no credit risk exposure to borrowers.

On June 30, 2006, there were \$41, 971 of securities on loan.

On June 30, 2005, there were no securities on loan.

NOTE 4. INVESTMENTS

Effective June 30, 2005, The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest & Investment Policy

Montana statute grants the Board the power to invest any funds not required for immediate use, subject to any agreements with its bondholders and note holders. The Board conducts its investing according to an investment policy which is annually reviewed and follows the bond indenture, Internal Revenue Code, and state statutes. The policy prohibits the Board from investing in leveraged investments, including but not limited to derivatives. The Board's policy follows state law by limiting investments to following:

- Direct obligations or obligations guaranteed by the United States of America
- Indebtedness issued or guaranteed by Government Sponsored Entities such as Federal Home Loan Bank System, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation, for example.
- Certificates of Deposit insured by the Federal Deposit Insurance Corporation.
- Guaranteed Investment Agreements or Repurchase Agreements

Credit Risk

Credit risk is the risk that the other party to an investment will not fulfill its obligations. Board investment policy mitigates this risk by requiring financial institutions to be rated in either of the two highest rating categories by Standard & Poor's and Moody's Investors Services. The Board enters into guaranteed investment agreements and repurchase agreements as directed by bond indentures. The table included in this note identifies investment agreement participants and their ratings.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 4. INVESTMENTS - continued

Credit Risk Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment with a single investment provider. Board investment policy follows the prudent expert principle as contained in Chapter 17, Part 6, Montana Code Annotated. This principle instructs investing entities to diversify investment holding to minimize the risk of loss. The table included in this note displays both investment provider and investment source diversity.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Board investment policy requires that investment contracts and repurchase agreements be fully collateralized with securities and cash held by the provider's agent and confirmed by the Board's trustee as required by the bond indentures. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board's investment policy does not explicitly address interest rate risk. However, the policy indirectly speaks about interest rate risk by stating that long-term investments are to be held to maturity and not for the intention of generating investment return. Typically, long-term investments are only sold as a result of refunding a bond issue or to meet liquidity needs. The following table displays Effective Duration for appropriate investment types or NA (not applicable) to indicate interest rate risk. All funds and component units of the State of Montana are required to use the duration method to report interest rate risk.

Investment Type & Source	Fair Value June 30, 2006	Moody's Rating	Standard & Poor's Rating	Effective Duration
<u>Investment Contracts</u>				
AIG Matched Funding Corp	\$15,859,468	NR**	NR**	NA
Bayerische Landesbank	21,138,994	NR	NR	NA
Peoples Benefit Life Insurance*	67,271,194	NR	NR	NA
Société Générale	1,553,422	NR	NR	NA
Transamerica Occidental	11,981,591	NR	NR	NA
Trinity Plus Funding Co.	9,709,873	NR	NR	NA
Westdeutsche Landesbank	2,354,847	NR	NR	NA
Morgan Stanley	613,172	NR	NR	NA
Contracts Total	\$ 130,482,560			
<u>Government Sponsored Entities</u>				
Federal Home Loan Bank	\$29,730,086	Aaa	AAA	0.04
Federal National Mortgage Assoc.	19,003,133	Aaa	AAA	9.21
Federal Home Loan Mortgage Corp.	18,233,429	Aaa	AAA	0.58
	\$66,966,648			
U. S. Treasury	\$ 6,204,008	NA	NA	9.87
Trustee Money Market Accounts	\$ 4,504,333	NA	NA	NA

* As of June 30, 2006, \$67,271,194 of original, unexpended bond proceeds were on deposit in the 2006 Series B Program Acquisition fund to be used for the purchase of Single Family Program Mortgage Loans. The 2006 Series B bonds were issued June 7, 2006.

** Investment Contracts are not rated (NR). However, the providers are required to meet ratings described in the Credit Risk section of this note.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	<u>2006</u>	<u>2005</u>
Mortgage loan receivables:		
Single Family Program	\$702,343,163	\$655,034,346
Multifamily Program	15,379,143	15,712,910
Housing Trust Program	1,706,519	1,488,225
Affordable Revolving Loan Account	<u>2,530,492</u>	<u>2,385,496</u>
	721,959,317	674,620,977
Net mortgage discounts and deferred reservation fees	2,477,535	9,435
Allowance for loan losses and real estate owned (note 6)	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$724,136,852</u>	<u>\$674,330,412</u>

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 2004	300,000
Provision	11,750
Less: Net loans charged off	<u>(11,750)</u>
Balance, June 30, 2005	300,000
Provision	0
Less: Net loans charged off	<u>0</u>
Balance, June 30, 2006	<u>\$ 300,000</u>

The allowance for loan losses includes \$200,000 at June 30, 2006 and 2005 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held two real estate owned properties as of June 30, 2006, and no real estate owned properties as of June 30, 2005.

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment. Balances are as follows:

	<u>2006</u>	<u>2005</u>
Capital Assets - Equipment	\$ 62,665	\$87,917
Capital Assets - Software	49,832	369,264
Accumulated depreciation	<u>(57,493)</u>	<u>(376,300)</u>
Net capital assets	<u>\$ 55,004</u>	<u>\$ 80,881</u>

Depreciation and amortization expense included in general and administrative expense was \$28,358 and \$39,737 for the years ended June 30, 2006 and 2005 respectively.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 8. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	<u>Original Amount</u>	<u>2006</u>	<u>2005</u>
Single Family I Mortgage Bonds:			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 June 1, 2030 and December 1, 2037.	\$91,360,000	\$37,615,000	\$42,190,000
1999			
Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031.	60,000,000	17,095,000	21,220,000
2000			
Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032.	87,695,000	15,045,000	20,115,000
2000			
Series B-1 and B-2 serial and term bonds 4.40% to 7.95% maturing in scheduled semi-annual installments to June 1, 2015, and on June 1, 2020, December 1, 2020, December 1, 2029, June 1, 2032 December 1, 2031.	71,940,000	30,835,000	38,580,000
2001			
Series A-1 and A-2 serial and term bonds 4.30% to 5.70% maturing in scheduled semi-annual installments to December 1, 2020, December 1, 2023 December 1, 2031, June 1, 2032 and December 1, 2032	71,000,000	32,330,000	39,015,000
2002			
Series A-1 and A-2 serial and term bonds 1.70% to 5.60% maturing in scheduled semi-annual installments to December 1, 2022, December 1, 2032 and December 1, 2033.	39,000,000	20,715,000	24,500,000
Series B-1 and B-2 serial and term bonds 2.30% to 5.55% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2026, December 1, 2032, June 1, 2033, December 1, 2033, and June 1, 2034.	52,190,000	34,200,000	41,425,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 8. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>2006</u>	<u>2005</u>
2005			
Series A serial and term bonds 2.80% to 5.60% maturing in scheduled semi-annual installments to December 1, 2013, December 1, 2030, December 1, 2035, and June 1, 2036.	93,785,000	93,455,000	93,785,000
2006			
Series A serial and term bonds 3.40% to 5.25% maturing in scheduled semi-annual installments to June 1, 2016, December 1, 2016, December 1, 2025, December 1, 2036, and June 1, 2037.	50,560,000	50,560,000	_____0
2006			
Series B serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to June 1, 2016, June 1, 2021, June 1, 2026, June 1, 2037, and December 1, 2037.	72,000,000	72,000,000	_____0
Bonds outstanding Single Family I		\$ 403,850,000	\$ 320,830,000
Unamortized bond premium		<u>4,265,891</u>	<u>1,938,900</u>
Total bonds payable Single Family I		\$ 408,115,891	\$ 322,768,900
Single Family II Mortgage Bonds:			
1985			
Series A, serial, term, Postponed Revenue on Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	39,999,625	1,138,152	1,110,562
Series B, term bonds maturing in scheduled semi-annual installments to June 1, 2011.	74,996,862	675,000	760,000
1994			
Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	25,725,000	420,000	1,975,000
1995			
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	0	29,290,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 8. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>2006</u>	<u>2005</u>
1996			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, June 1, 2016, June 1, 2024, and December 1, 2028.	65,000,000	10,805,000	13,325,000
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	18,870,000	23,290,000
1998			
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2013, and on December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and June 1, 2031.	65,000,000	24,490,000	29,760,000
2003			
Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	44,965,000	49,850,000
Series B-1 and B-2 serial and term bonds 1.10% to 4.50% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2024, December 1, 2025, December 1, 2026, December 1, 2027, December 1, 2028, December 1, 2032, December 1, 2033, December 1, 2034, December 1, 2041, and December 1, 2042.	70,700,000	58,770,000	66,960,000
Series C serial and term bonds 1.45% to 5.05% maturing in scheduled semi-annual installments to June 1, 2023, December 1, 2023, December 1, 2028, and December 1, 2034.	40,500,000	33,930,000	38,770,000
2004			
Series A serial and term bonds 1.40% to 5.00% maturing in scheduled semi-annual installments to December 1, 2023, June 1, 2024, June 1, 2029, December 1, 2029, and June 1, 2035.	50,600,000	43,030,000	49,145,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 8. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>2006</u>	<u>2005</u>
2004			
Series B serial and term bonds 1.85% to 5.75% maturing in scheduled semi-annual installments to December 1, 2014, June 1, 2015, December 1, 2024, December 1, 2030 and December 1, 2035.	68,000,000	61,980,000	67,510,000
Series C serial and term bonds 2.00% to 5.00% Maturing in scheduled semi-annual installments To December 1, 2016, December 1, 2025, December 1, 2030, June 1, 2035, and December 1, 2035.	54,600,000	52,095,000	54,590,000
2005 RA			
Series A serial and term bonds 4.10% to 4.75% maturing in scheduled semi-annual installments to December 1, 2016, December 1, 2017, December 1, 2021, December 1, 2026, December 1, 2027, and June 1, 2044.	30,280,000	29,465,000	_____0
Bonds outstanding Single Family II		\$ 380,633,152	\$ 426,335,860
Unamortized bond premium / discount		<u>4,799,354</u>	<u>5,527,793</u>
Total bonds payable Single Family II		<u>\$ 385,432,506</u>	<u>\$ 431,863,653</u>
Total Single Family Mortgage bonds payable, net		<u>\$ 793,548,397</u>	<u>\$ 754,632,553</u>

All single-family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

	<u>Original Amount</u>	<u>2006</u>	<u>2005</u>
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	\$865,000	\$895,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	0.00	110,000
1996			
Series A, 4.10% to 6.15% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2011, and on August 1, 2016, and August 1, 2026.	890,000	740,000	760,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 8. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>2006</u>	<u>2005</u>
1998			
Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,250,000	1,275,000
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039.	9,860,000	<u>8,765,000</u>	<u>8,950,000</u>
Total bonds outstanding		11,620,000	11,990,000
Unamortized bond premium		<u>(41,820)</u>	<u>(43,065)</u>
Total Multifamily Mortgage bonds payable, net		<u>\$ 11,578,180</u>	<u>\$ 11,946,935</u>
Combined total bonds payable, net		<u>\$ 805,126,577</u>	<u>\$ 766,579,488</u>

All Multifamily mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 102%.

The 1998A Multifamily bonds are general obligations of the Board.

The following is a summary of bond principal and interest requirements as of June 30, 2006:

<u>Fiscal Year Ending</u>	<u>Single Family Mortgage Program Funds</u>	<u>Multifamily Mortgage Program Funds</u>	<u>Principal Totals</u>	<u>Interest Totals</u>
2007	\$ 49,654,083	\$ 970,786	\$ 10,650,000	\$ 39,974,869
2008	51,078,275	971,144	12,430,000	39,619,419
2009	51,848,357	970,847	13,725,000	39,094,204
2010	51,556,081	973,768	14,020,000	38,509,849
2011	51,677,358	970,581	14,765,000	37,882,939
2011-16	262,758,848	4,524,378	89,107,813	178,175,414
2016-21	262,647,847	3,822,235	112,175,000	154,295,082
2021-26	269,045,360	3,442,813	151,155,000	121,333,174
2026-31	262,739,037	3,039,364	189,185,000	76,593,401
2031-36	180,391,527	2,702,516	154,075,000	29,019,043
2036-41	31,702,811	2,840,816	29,900,000	4,643,628
2041-46	7,083,616	0	6,665,000	418,616
Total	<u>\$ 1,532,183,200</u>	<u>\$ 25,229,249</u>	<u>\$ 797,852,813</u>	<u>\$ 759,559,637</u>

Cash paid for interest expenses during the years ended June 30, 2006 and 2005 was \$ 38,139,595 and \$ 36,956,738, respectively.

Changes in Bonds Payable

	<u>6/30/2005 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2006 Balance</u>
Single Family	\$ 754,632,553	155,273,410	(116,357,567)	\$ 793,548,397
Multi Family	11,946,935		(368,755)	11,578,180
Total	<u>\$ 766,579,488</u>	<u>155,273,410</u>	<u>(116,726,322)</u>	<u>\$ 805,126,577</u>

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 2006 and 2005 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	<u>2006</u>	<u>2005</u>
Single Family I		
December 1	\$25,105,000	\$25,060,000
June 1	<u>10,770,000</u>	<u>20,730,000</u>
	<u>35,875,000</u>	<u>45,790,000</u>
Single Family II		
December 1	46,804,127	19,275,231
June 1	<u>23,915,000</u>	<u>12,263,694</u>
	<u>70,719,127</u>	<u>31,538,925</u>
Multifamily	<u>0</u>	<u>1,410,000</u>
Total	<u>\$106,594,127</u>	<u>\$78,738,925</u>

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of \$947,732 and \$703,237 in 2006 and 2005, respectively.

NOTE 10. COMMITMENTS

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately \$4,793,004 from the issuance of the 2005 Series A Bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

Neighborhood Housing Services MT Home Ownership Network	\$4,456,104
Neighborhood Housing Services MT Home Ownership Network (Subordinate Loan)	1,132,544
MT Home Ownership Network Lender Pool	1,483,916
FNMA Home Ownership	1,165,942
District IX Human Resource Council Bozeman	1,923,263
District XI Human Resource Council Missoula	1,630,260
North Missoula Community Development	1,663,960
Town of Bridger	85,157
City of Billings	474,089
Teachers Conventional Loans	661,488
Lake County	1,408,287
City of Lewistown	489,194
GR8 Hope	2,386,828
GAP Financing Program	1,000,000
Foreclosure Prevention	50,000
Disabled Affordable Accessible Homeownership Program	1,035,687
Town of Terry	89,510
First Time Homebuyers Savings Account	1,120,203
Lot Refinance	1,040,769
Habitat for Humanity	1,061,328
Glacier Affordable Housing Program	555,451
HUD Section 184-Indian Housing	\$3,630,575
USDA Rural Housing Development	995,983
Down Payment Pool	<u>4,544,754</u>
Total Single Family Commitments	<u>\$34,085,292</u>

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 10. COMMITMENTS (continued)

Other Commitments--Single Family I Reverse Annuity Mortgage Program	\$2,000,000
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The Board has the following Multifamily commitments: Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD) Total Multifamily Commitments	\$220,867
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The Board has committed Housing Trust Funds as noted below: Reverse Annuity Mortgage Program	\$2,825,002
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These mortgage commitments will be funded through cash and investments.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Board of Housing and its employees contribute to the Public Employees' Retirement System (PERS). PERS offers two types of retirement plans administered by the Montana Public Employees' Retirement Administration.

Defined Benefit Retirement Plan: The Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Vesting occurs once membership service totals five years. Benefits are established by state law and can only be amended by the legislature.

Defined Contribution Retirement Plan: The Defined Contribution Retirement Plan (DCRP) was created by the 1999 legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer, cost-sharing plan that also provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan, and the investment earnings less administrative costs.

The PERS issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park Suite 220
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plans are required and determined by state law.

The contribution rates for 2006 expressed as a percentage of covered payroll are as follows:

<u>Employee</u>	<u>Employer</u>	<u>Total</u>
6.90%	6.90%	13.80%

The amounts contributed to the plans during the years ended June 30, 2004, 2005, and 2006 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as required by state law, were as follows:

Fiscal Year	2006 - \$ 49,514
Fiscal Year	2005 - \$ 47,719
Fiscal Year	2004 - \$ 42,603

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

NOTE 11. EMPLOYEE BENEFIT PLANS (continued)

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from state service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

NOTE 12. CONTINGENT ARBITRAGE REBATE LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

The Board made \$421,329 in arbitrage rebate cash payments to the United States Treasury Department in fiscal year 2006 and \$43,160 during the fiscal year ended June 30, 2005. The related liabilities were \$1,141,133 and \$1,262,083 as of June 30, 2006 and 2005, respectively.

NOTE 13. NO-COMMITMENT DEBT

The Board of Housing is authorized to issue its bonds and to make mortgage loans in order to finance housing which will provide decent, safe and sanitary housing for persons and families of lower income in the State of Montana.

The bonds are not general obligations of the board but special limited obligations payable solely from pledged revenues and assets. The board is not obligated to make payment on the bonds from any of its assets other than those revenues and assets so pledged. The board has no taxing power. Accordingly, these bonds are not reflected in the accompanying financial statements.

The bonds are not a debt of the state and the state is not liable for the bonds. Neither the state's faith or credit or taxing power is pledged to the payment of bond principal or interest.

<u>Bond Series</u>	<u>Original Amount</u>	<u>Outstanding as of 6/30/2006</u>
Single Family Mortgage Revenue Bonds Series 2005A-1	\$516,000	\$516,000
Multifamily Housing Revenue Bonds Series 2006A	\$2,104,700	\$2,104,700
Multifamily Housing Revenue Bonds Taxable Series 2006B	\$517,746	\$517,746

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MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2006 and 2005

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

On November 16, 2005, Series 2005RA was issued in the amount of \$30,280,000. Of the proceeds, \$29,120,000 was used as a replacement refunding of the Series 1995 B bonds on December 1, 2005.

Under Governmental Accounting Standards Board (GASB) Statement 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB 23 guidelines:

FY 2006 Refunding:

Cost of Issuance related to the refunded bonds (95B)	\$215,455
Premium paid on the refunded bonds (95B)	<u>582,400</u>
Total deferred refunding costs	797,855
Less amortization FY 2006	<u>30,525</u>
Amount remaining to be amortized on FY 2006 issues	\$767,330

Prior years' Refundings:

Unamortized Deferred refunding costs from prior years' refunding	<u>\$1,224,515</u>
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Total unamortized	<u>\$1,991,845</u>
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The refunding of the 1995B bonds resulted in an economic gain of \$6,274,029 and a difference in cash flows of \$3,328,826.

NOTE 15. SUBSEQUENT EVENT

On September 20, 2006, the Board issued \$70,805,000 of Single Family Mortgage Bonds Series 2006 C. The Bonds will mature on June 1, 2007, through December 1, 2037, with interest rates from 3.50% to 5.75%.

NOTE 16. RELATED PARTY TRANSACTIONS

Certain Board of Housing directors are officers of community organizations that are eligible to participate in Board sponsored or operated programs.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2005)

							Combined Totals	
	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	FY 2006	FY 2005
ASSETS								
Current Assets								
Cash and Cash Equivalents	\$ 1,556,692	\$ 2,196,766	\$ 3,753,458	\$ 1,600,685	\$ 2,273,988	\$ 242,305	\$ 7,870,436	\$ 5,771,588
Investments	118,722,129	55,247,694	173,969,823	3,143,124	-	-	177,112,947	187,407,778
Mortgage Loans Receivable	5,562,838	7,103,443	12,666,281	513,287	-	11,780	13,191,347	11,957,430
Interest Receivable	2,160,601	2,037,308	4,197,909	96,520	307,048	75,562	4,677,039	4,519,714
Interfund Receivable *	634,427	355,573	990,000	-	-	-	990,000	-
Due from Primary Government	3,664	3,664	7,328	-	-	-	7,328	-
Due from Other Governments	-	-	-	-	-	-	-	5,237
Security Lending Collateral	6,168	6,168	12,336	-	29,123	512	41,972	32,639
Prepaid Expense	102,840	103,823	206,663	3,213	22,621	-	232,497	208,810
Total Current Assets	\$ 128,749,359	\$ 67,054,438	\$ 195,803,798	\$ 5,356,829	\$ 2,632,780	\$ 330,159	\$ 204,123,566	\$ 209,903,196
Noncurrent Assets								
Investments	\$ 2,813,970	\$ 22,611,878	\$ 25,425,848	\$ 1,114,804	\$ -	\$ -	\$ 26,540,652	\$ 28,939,630
Mortgage Loans Receivable	322,170,963	369,683,453	691,854,416	14,865,856	1,706,519	2,518,713	710,945,504	662,372,983
Deferred Bond Issuance Costs, Net	3,870,814	3,711,859	7,582,673	175,715	-	-	7,758,388	7,435,350
Capital Assets, Net	21,498	32,673	54,171	417	416	-	55,004	80,880
Total Noncurrent Assets	\$ 328,877,245	\$ 396,039,863	\$ 724,917,108	\$ 16,156,792	\$ 1,706,935	\$ 2,518,713	\$ 745,299,548	\$ 698,828,844
TOTAL ASSETS	\$ 457,626,604	\$ 463,094,303	\$ 920,720,907	\$ 21,513,621	\$ 4,339,715	\$ 2,848,872	\$ 949,423,114	\$ 908,732,040
LIABILITIES								
Current Liabilities								
Accounts Payable	\$ 264,325	\$ 155,485	\$ 419,810	\$ 12,571	\$ 8,015	\$ 277	\$ 440,673	\$ 461,019
Interfund Payable *	-	-	-	-	990,000	-	990,000	-
Due to Primary Government	8,680	8,680	17,360	1,023	2,166	975	21,524	25,114
Due to Other Component Unit	-	-	-	-	-	-	-	150
Due to Other Government	-	-	-	-	-	-	-	32,639
Security Lending Liability	6,168	6,168	12,336	-	29,123	512	41,971	-
Property Held in Trust	-	-	-	-	-	-	-	3,255
Accrued Interest - Bonds Payable	1,712,885	1,514,760	3,227,645	291,786	-	-	3,519,431	3,656,257
Bonds Payable, Net	4,645,000	5,730,000	10,375,000	275,000	-	-	10,650,000	9,855,000
Arbitrage Rebate Payable to U.S. Treasury Department	86,513	227,691	314,204	-	-	-	314,204	443,233
Accrued Compensated Absences	17,971	17,969	35,940	6,185	4,375	-	46,500	69,004
Total Current Liabilities	\$ 6,741,542	\$ 7,660,753	\$ 14,402,295	\$ 586,565	\$ 1,033,679	\$ 1,764	\$ 16,024,303	\$ 14,545,671
Noncurrent Liabilities								
Bonds Payable, Net	\$ 403,470,891	\$ 379,702,506	\$ 783,173,397	\$ 11,303,180	\$ -	\$ -	\$ 794,476,577	\$ 756,724,488
Deferred Refunding Costs	(767,330)	(1,224,515)	(1,991,845)	-	-	-	(1,991,845)	(1,365,779)
Arbitrage Rebate Payable to U.S. Treasury Department	219,823	607,105	826,928	-	-	-	826,928	818,850
Accrued Compensated Absences	34,014	34,014	68,028	11,707	8,283	-	88,018	48,450
Total Noncurrent Liabilities	\$ 402,957,398	\$ 379,119,110	\$ 782,076,508	\$ 11,314,887	\$ 8,283	\$ -	\$ 793,399,678	\$ 756,226,009
TOTAL LIABILITIES	\$ 409,698,940	\$ 386,779,863	\$ 796,478,803	\$ 11,901,452	\$ 1,041,962	\$ 1,764	\$ 809,423,981	\$ 770,771,680
NET ASSETS								
Invested in Capital Assets, Net	\$ 21,498	\$ 32,673	\$ 54,171	\$ 417	\$ 416	\$ -	\$ 55,004	\$ 80,880
Restricted for Bondholders:								
Unrealized (losses) gains on investments	(2,714)	1,583,845	1,581,131	25,114	-	-	1,606,245	4,564,519
Single Family Programs	31,918,855	54,602,655	86,521,510	-	-	-	86,521,510	85,678,849
Various Recycled Mortgage Programs	15,990,025	18,095,267	34,085,292	-	-	-	34,085,292	33,440,493
Multifamily Programs	-	-	-	9,365,771	472,334	-	9,838,105	8,710,759
Multifamily Project Commitments	-	-	-	220,867	-	-	220,867	225,441
Reverse Annuity Mortgage Program	-	2,000,000	2,000,000	-	2,825,002	-	4,825,002	2,634,845
Restricted for Affordable Revolving Loan Program	-	-	-	-	-	2,847,108	2,847,108	2,624,574
TOTAL NET ASSETS	\$ 47,927,664	\$ 76,314,440	\$ 124,242,104	\$ 9,612,169	\$ 3,297,752	\$ 2,847,108	\$ 139,999,133	\$ 137,960,360

Interfund Payable & Receivable records a temporary loan between Board program funds that is expected to be repaid within one year. The loan is excluded from the Board's Statement of Net Assets because it is not an obligation to an external entity. The Statement of Net Assets Current Assets and Current Liabilities balances therefore does not include the amount of this loan.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals	
							FY 2006	FY 2005
OPERATING REVENUES								
Interest Income - Mortgage Loans	\$ 16,211,713	\$ 21,300,546	\$ 37,512,259	\$ 915,135	\$ 86,312	\$ 40,000	\$ 38,553,706	\$ 37,146,816
Interest Income - Investments	4,813,187	4,570,862	9,384,049	171,801	31,858	(9,006)	9,578,702	8,061,488
Fee Income	25,242	22,593	47,835	13,644	254,121	-	315,600	219,119
Federal Financial Assistance	975	168,064	169,039	236,603	-	192,808	598,450	403,825
Net Increase (Decrease) in Fair Value of Investments	(2,714)	(2,980,674)	(2,983,388)	25,113	-	-	(2,958,275)	2,906,138
Grants and Contributions				-	-		-	117,539
Other Income	33,019	32,500	65,519				65,519	10,777
Securities Lending Gross Earnings	16	16	32		555	22	609	
Total Operating Revenues	<u>\$ 21,081,438</u>	<u>\$ 23,113,907</u>	<u>\$ 44,195,345</u>	<u>\$ 1,362,296</u>	<u>\$ 372,846</u>	<u>\$ 223,824</u>	<u>\$ 46,154,311</u>	<u>\$ 48,865,702</u>
OPERATING EXPENSES								
Interest on Bonds	\$ 17,264,986	\$ 19,302,036	\$ 36,567,022	\$ 705,402	\$ -	\$ -	\$ 37,272,424	\$ 36,298,463
Servicer Fees	1,042,783	1,474,910	2,517,694	17,140	-	-	2,534,834	2,376,194
Contracted Services	402,902	591,104	994,006	29,851	15,337	276	1,039,470	575,740
Amortization of Bond Issuance Costs	260,819	90,766	351,584	11,038	-	-	362,622	553,586
General and Administrative	524,954	735,006	1,259,960	182,976	201,981	990	1,645,907	1,552,373
Arbitrage Rebate Expense	87,569	212,810	300,379	-	-	-	300,379	282,233
Grants / Subcontracts								117,539
Loss on Redemption	332,446	615,286	947,732	-	-	-	947,732	703,237
Securities Lending Expense	16	16	32		555	22	609	
Total Operating Expenses	<u>\$ 19,916,475</u>	<u>\$ 23,021,934</u>	<u>\$ 42,938,409</u>	<u>\$ 946,407</u>	<u>\$ 217,873</u>	<u>\$ 1,288</u>	<u>\$ 44,103,978</u>	<u>\$ 42,459,365</u>
Operating Income (Loss) Before Transfers	1,164,963	91,973	1,256,936	415,890	154,973	222,535	2,050,333	6,406,337
Transfers In(Out)	7,740,604	(8,000,000)	(259,396)	259,396	-	-	-	-
Increase (Decrease) in Net Assets	8,905,567	(7,908,027)	997,540	675,286	154,973	222,535	2,050,333	6,406,337
Net Assets, Beginning of Year	39,031,955	84,224,169	123,256,124	8,936,883	3,142,779	2,624,573	137,960,360	131,554,023
Prior Period Adjustment	(9,858)	(1,702)	(11,560)	-	-	-	(11,560)	-
Net Assets, End of Year	<u>\$ 47,927,664</u>	<u>\$ 76,314,440</u>	<u>\$ 124,242,104</u>	<u>\$ 9,612,169</u>	<u>\$ 3,297,753</u>	<u>\$ 2,847,108</u>	<u>\$ 139,999,133</u>	<u>\$ 137,960,360</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals	
							2006	2005
CASH FLOWS FROM OPERATING ACTIVITY								
Receipts for Sales and Services	\$ 25,242	\$ 22,593	\$ 47,835	\$ 13,644	\$ 254,121	\$ -	\$ 315,600	\$ 215,955
Collections on Loans and Interest on Loans	61,746,865	78,770,447	140,517,112	1,250,633	225,577	60,304	142,053,626	134,465,707
Cash payments for Loans	(136,105,907)	(16,700,601)	(152,806,508)	-	(401,750)	(186,322)	(153,394,580)	(162,433,374)
Federal Financial Assistance Receipts	975	200,703	201,678	236,604	-	192,807	631,089	396,720
Receipts for Grants and Contributions	-	-	-	-	-	-	-	117,539
Payments to Suppliers for Goods and Services	(1,594,672)	(2,450,597)	(4,045,269)	(131,007)	(111,340)	(38)	(4,287,654)	(3,683,108)
Payments to Employees	(378,413)	(378,412)	(756,825)	(94,224)	(117,568)	-	(968,617)	(909,996)
Other Operating Revenues	34,778	32,516	67,294	-	555	23	67,872	10,775
Net Cash Provided (Used) by Operating Activities	\$ (76,271,332)	\$ 59,496,649	\$ (16,774,683)	\$ 1,275,650	\$ (150,405)	\$ 66,774	\$ (15,582,664)	\$ (31,819,782)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Payment of Principal and Interest on Bonds and Notes	\$ (56,858,664)	\$ (96,228,087)	\$ (153,086,751)	\$ (1,082,379)	\$ -	\$ -	\$ (154,169,130)	\$ (122,322,868)
Proceeds from Issuance of Bonds and Notes	122,560,000	30,280,000	152,840,000	-	-	-	152,840,000	216,385,000
Payment of Bond Issuance Costs	(1,324,847)	(950,385)	(2,275,232)	-	-	-	(2,275,232)	(2,159,579)
Premium Paid on Refunding Bonds	2,477,860	-	2,477,860	-	-	-	2,477,860	4,416,754
Due from Other Funds	(634,427)	(355,573)	(990,000)	-	990,000	-	-	-
Transfers in (out)	7,740,604	(8,000,000)	(259,396)	259,396	-	-	-	-
Good Faith Deposit being Held	-	-	-	-	-	-	-	(680,000)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 73,960,526	\$ (75,254,045)	\$ (1,293,519)	\$ (822,983)	\$ 990,000	\$ -	\$ (1,126,502)	\$ 95,639,307
CASH FLOWS FROM CAPITAL ACTIVITIES								
Purchase of fixed assets	\$ (7,020)	\$ (7,020)	\$ (14,040)	-	-	-	\$ (14,040)	\$ (45,000)
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchase of Investments	\$ (401,051,247)	\$ (768,766,698)	\$ (1,169,817,945)	\$ (3,371,314)	\$ -	\$ -	\$ (1,173,189,259)	\$ (1,000,704,058)
Proceeds from Sales or Maturities of Investments	391,689,159	787,414,270	1,179,103,429	3,821,381	-	-	1,182,924,810	927,737,555
Transfer of Investments	7,740,604	(8,000,000)	(259,396)	259,396	-	-	-	-
Interest on Investments	4,659,264	4,654,375	9,313,639	173,084	31,858	(9,006)	9,509,575	7,742,593
Arbitrage Rebate Tax	(349,400)	(71,929)	(421,329)	-	-	-	(421,329)	(43,159)
Net Cash Provided (Used) by Investing Activities	\$ 2,688,380	\$ 15,230,018	\$ 17,918,398	\$ 882,547	\$ 31,858	\$ (9,006)	\$ 18,823,797	\$ (65,267,069)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 370,554	\$ (534,398)	\$ (163,844)	\$ 1,335,214	\$ 871,453	\$ 57,768	\$ 2,100,591	\$ (1,492,544)
Cash and Cash Equivalents, beginning bal	\$ 1,187,881	\$ 2,731,163	\$ 3,919,044	\$ 265,471	\$ 1,402,535	\$ 184,537	\$ 5,771,587	\$ 7,264,131
Prior Period Adjustment	(1,742)	-	(1,742)	-	-	-	(1,742)	-
Cash and Cash Equivalents, ending bal.	\$ 1,556,693	\$ 2,196,765	\$ 3,753,458	\$ 1,600,685	\$ 2,273,988	\$ 242,305	\$ 7,870,436	\$ 5,771,587

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
							FY 2006	FY 2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES								
Operating Income	\$ 1,164,963	\$ 91,973	\$ 1,256,936	\$ 415,890	\$ 154,973	\$ 222,534	\$ 2,050,333	\$ 6,406,337
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:								
Depreciation	13,605	16,003	29,608	267	267	-	30,142	39,736
Amortization	453,287	(22,387)	430,900	12,282	-	-	443,182	853,908
Interest Expense	17,404,923	20,030,475	37,435,398	704,158	-	-	38,139,556	36,701,376
Interest on Investments	(4,813,187)	(4,570,862)	(9,384,049)	(171,801)	(31,858)	9,006	(9,578,702)	(8,061,487)
Arbitrage Rebate Tax	87,569	212,810	300,379	-	-	-	300,379	282,232
(Incr) Decr in Fair Value of Investments	2,714	2,980,674	2,983,388	(25,113)	-	-	2,958,275	(2,906,138)
Change in Assets and Liabilities:								
Decr (Incr) in Mortgage Loans Receivable	(87,946,119)	40,637,303	(47,308,816)	333,768	(218,292)	(144,997)	(47,338,337)	(62,345,980)
Decr (Incr) in Other Assets	(229,003)	193,034	(35,969)	5,957	(60,878)	(21,020)	(111,910)	(153,077)
Incr (Decr) in Accounts Payable	(3,308)	(24,302)	(27,610)	(1,437)	3,251	1,251	(24,545)	1,468
Incr (Decr) in Deferred Reservation & Disc. Fees	(2,413,402)	(54,697)	(2,468,099)	-	-	-	(2,468,099)	(2,653,089)
Incr (Decr) in Compensated Absences Payable	6,626	6,625	13,251	1,679	2,132	-	17,062	14,932
Net Cash Provided by (Used for) Operating Activities	\$ (76,271,332)	\$ 59,496,649	\$ (16,774,683)	\$ 1,275,650	\$ (150,405)	\$ 66,774	\$ (15,582,664)	\$ (31,819,782)

MONTANA

Department of Commerce

MONTANA BOARD OF HOUSING
P.O. Box 200528 ★ Helena, Montana 59620-0528
Phone: 406-841-2840 ★ Fax: 406-841-2841 ★ TDD: 406-841-2702

November 2, 2006

Scott A. Seacat
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

RECEIVED

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LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

We have received and reviewed the financial-compliance audit of the Montana Board of Housing for the two fiscal years ended June 30, 2006. We are pleased with the unqualified opinion. We appreciate the professionalism and courtesy with which the audit was conducted. We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,



Bruce Brensdal
Executive Director